

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6349

BILL NUMBER: SB 94

NOTE PREPARED: Dec 15, 2008

BILL AMENDED:

SUBJECT: Taxation of Civil Service Annuities.

FIRST AUTHOR: Sen. Lewis

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a 100% income tax deduction for civil service annuity income received by an individual or the individual's surviving spouse. It phases in the deduction over five years.

Effective Date: January 1, 2009 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the 5 year phase-in of the 100% income tax deduction for civil service annuities. The DOR's current level of resources should be sufficient to implement the change.

Explanation of State Revenues: *Summary* - The bill would reduce Adjusted Gross Income (AGI) Tax liabilities of certain individual taxpayers who receive federal civil service retirement benefits, including surviving spouses. The provisions of this bill would not require the annuity to be offset by Social Security, as is required now. The bill phases in a 100% income tax deduction over 5 years. In years 2009 through 2012 the deduction is equal to the greater of a percentage of the annuity (20%, 40%, 60%, and 80%, respectively) or \$12,000. The potential revenue losses due to the increase in the deduction is summarized in the table below and are in addition to the revenue losses which are occurring under the current deduction limits..

Tax Year	Fiscal Year	Annual Revenue Loss
2009	2010	\$14.4 M
2010	2011	\$14.5 M
2011	2012	\$18.8 M
2012	2013	\$24.7 M
2013	2014	\$31.8 M

Background Information - Under current statute, taxpayers may deduct up to \$2,000 in civil service annuity income. The deduction is equal to the difference between \$2,000 and the total amount of social security and railroad benefits received by the taxpayer. Based on the current deduction limits, revenue loss for FY 2010 is estimated to be approximately \$195,000. Data from the U.S. Office of Personnel Management indicates that there were about 26,400 federal retirees and about 8,800 surviving spouses of federal retirees residing in Indiana in 2007. On average, that number has increased 0.4% over the past 10 years. These individuals received approximately \$782 M in civil service annuity payments during 2007, with the average annuity to retirees equal to about \$25,000. The average survivor's benefit was about \$13,600. The totals payments to retirees and their spouses in Indiana increased, on average, 4% over the past 10 years.

The bill increases the deduction beginning in tax year 2009, thus, the fiscal impact of the phase-in will commence in FY 2010. Revenue collected from the AGI tax on individuals is deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the increase in the civil service retirement deduction would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a minimal decrease in revenue from these taxes.

State Agencies Affected: DOR.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: Ed Callicott, Center for Budget and Performance, Federal Office of Personnel Management, 202-606-1268; Danny Cieslicki, Center for Budget and Performance, Federal Office of Personnel Management, 202-606-0067.

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